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OCTOBER 1979 SURVEY

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Surveys of Consumer Attitudes

Monitoring Economic Change Program

F. Thomas Juster, *Director* Monitoring Economic Change Program • George Katona, *Founder* Consumer Survey Program • Richard T. Curtin, *Director* Surveys of Consumer Attitudes

RECORD INTEREST RATES LOWER FAVORABLE BUYING ATTITUDES

**In the October 1979 survey, the Index of Consumer Sentiment was 62.1, down 4.6 Index-points from September, but above the low of 60.4 recorded three months earlier in July. Compared with a year ago, the Index is now 17 Index-points lower, and it has remained largely unchanged at this low level during the last three months.

**Among families with incomes of $15,000 or more, the Index of Consumer Sentiment was 56.5 in October 1979, down 2 Index-points from September, and less than 1 Index-point above the 1979 low recorded in July (55.7).

**The sharpest declines were recorded in short-term business expectations in the October survey; evaluations of personal finances and market conditions also declined. The major impact of record high interest rates and news of shifts in monetary policy has been to depress buying attitudes.

**In October 1979, 70 percent of all respondents expected interest rates to go up, while just 7 percent expected declines during the next year. This reading is identical to the September 1979 survey--and the November 1978 survey. Throughout the past year, interest rate expectations have remained at or near all time record levels.

**Price expectations declined for the 5th consecutive month, falling to 8.9% in October, from 11.4% in May 1979.

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The October 1979 survey indicates that consumer sentiment has remained near record low levels. During the past year, favorable buying attitudes have been maintained through buy in advance rationales, despite widespread pessimistic business expectations. Recent declines in price expectations coupled with record high interest rates have significantly reduced favorable buying attitudes. Declines in consumer sales can be expected to accelerate in the near term, as a consequence.

Personal Finances Worsen

Nearly half of all families reported in the October survey that their financial situation had worsened, a level comparable only with those recorded during the 1974-75 recession. In October, 46 percent of all families reported that they were worse off than a year earlier (up from 37 percent in October 1978), and 28 percent reported being better off financially (down from 33 percent in October 1978). The October survey reverses the entire, although small, improvement in personal financial attitudes which have occurred since early summer 1979. Fewer respondents mentioned income increases in October 1979 (28 percent) than in October 1978 (38 percent), and more frequently mentioned higher prices making them worse off financially in October 1979 (48 percent) than in October 1978 (33 percent).

Personal financial expectations remained largely unchanged in the October survey from late summer readings. In October 1979, 28 percent of all families expected to be worse off financially in a year, while 24 percent expected to be better off financially. Although this represents a small improvement over the early summer lows (which accompanied the gas shortages), personal financial expectations nonetheless remained near all time record low levels.

Pessimistic Business Expectations

Evaluations of business conditions have deteriorated significantly during the past year. In October 1979, 63 percent of all respondents reported that business conditions had worsened (up from 32 percent in October 1978), while 22 percent felt business conditions had improved compared with a year earlier (down from 45 percent in October 1978). The major portion of this decline occurred in late 1978 and early 1979, with evaluations remaining largely unchanged at this low level the past three months.

More than twice as many respondents expected the economy in October 1979 to worsen (35 percent) than to improve (15 percent) during the next year. This reading is identical to the September 1979 survey, although significantly lower than October 1978, when improvement was somewhat more frequently expected than deterioration (22 versus 19 percent).

In October 1979, 70 percent of all respondents expected bad times financially in the economy as a whole during the next 12 months, nearly four times the proportion who expected good times financially (18 percent). Expected changes in business conditions during the next five years were also quite pessimistic and

near record low levels. In the October survey, 67 percent of all families expected bad times in the economy during the next five years (up from 47 percent in October 1978), while just 16 percent expected good times financially (down from 24 percent in October 1978). As with short term business expectations, this represents a marginal improvement over the July 1979 record low readings.

Price Expectations Moderate

The October 1979 survey recorded declines in price expectations for the fifth consecutive month. In October, consumers expected prices to increase on average by 8.9%, down from 10.0% in September, and 11.4% in May 1979 (the all-time record level). In October, 36 percent of all respondents expected prices to increase by 10% or more during the next year, down from 45 percent in May 1979. The majority of respondents in October 1979 expected unemployment to increase (55 percent), compared with just 7 percent who expected declines. This represents a sharp deterioration from a year ago, when just 30 percent expected unemployment to increase, although unemployment expectations have remained largely unchanged during the past few months.

Confidence in government economic policy declined somewhat in the October survey from September 1979. Among all respondents, 45 percent rated government economic policy as poor in the October survey, up from 40 percent in September, and 30 percent in October 1978. The current level of confidence in government economic policy is barely above the mid-summer record low.

Federal Reserve Board Announcement

The October sample was subdivided based on whether the interview was conducted before or after the October 6th announcement. As shown in the following table, the Index of Consumer Sentiment was somewhat lower following the announcement, concentrated in less favorable short-term business expectations. High interest rates had their greatest impact on attitudes toward buying conditions for cars and houses, which were significantly more pessimistic following the October 6th announcement.

CHANGE IN ATTITUDES FOLLOWING FEDERAL RESERVE BOARD ANNOUNCEMENT

	Date of Interview		
	Before October 6	October 6 and later	Difference
Index of Consumer Sentiment	63.2	59.1	-4.1
Business Expectations[a]			
Economic news heard	52	42	-10
12-month	51	40	-11
5-year	50	45	-5
Government economic policy	60	62	+2
Market Attitudes[a]			
Durables	128	121	-7
Cars	104	86	-18
Houses	104	89	-15
Price expectations	8.6%	9.5%	+0.9%
Cases	837	331	

[a]Table entries represent the proportion giving favorable replies minus the proportion giving unfavorable replies, plus 100.

Less Favorable Buying Attitudes

In the October survey, 58 percent of all respondents favorably rated buying conditions for durables, down from 62 percent in September 1979 and October 1978. Nearly one-in-three now rate durable buying conditions as unfavorable, up from one-in-four in October 1978. The increase in unfavorable evaluations was due to more frequent complaints of high interest rates (8% in October 1979, up from 2% in October 1978).

Car buying attitudes have remained on balance unchanged from the September reading, although significantly below year ago levels. In October 1979, fewer respondents mentioned buy-in-advance rationales (23 percent, down from 38 percent in October 1978), and more frequently mentioned high interest rates for making buying conditions unfavorable (8 percent, up from 3 percent in October 1978).

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The October survey included 1,168 interviews, conducted between September 24 and October 21, 1979.